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CONSUMER ADVOCATE

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January 20, 2005

Ms. Margaret A. Thomson
Chief Clerk
Iowa House of Representatives
State Capitol, 2nd Floor
LOCAL MAIL

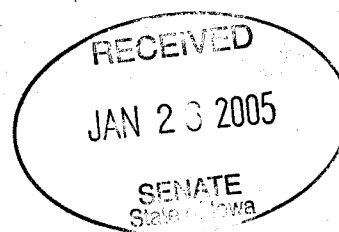
Mr. Michael E. Marshall
Secretary
Iowa Senate
State Capitol, 2nd Floor
LOCAL MAIL

Dear Ms. Thomson and Mr. Marshall:

Iowa Code § 476.98 directs the Consumer Advocate to prepare a report to the General Assembly estimating the return of a local exchange carrier operating under price regulation as if that carrier were subject to rate-of-return regulation. The report is to be provided every two years beginning on July 1 of the year immediately following two full calendar years of a carrier's operation under price regulation. The law requires two estimates, one that takes into account the revenues, expenses and investment associated with the sale of classified directory advertising, and one that does not.

Qwest Corporation (Qwest), formerly known as U S West Communications, Inc., began operating under price regulation on November 7, 1998. The acting Consumer Advocate submitted a report of the estimate of the year 2000 earnings of Qwest on July 2, 2001, and submitted a revised report on July 11, 2001.

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The second report on Qwest was due July 1, 2003. On March 28, 2003, I wrote to advise you that Qwest was unable to provide our office with the information needed to prepare the report due July 1, 2003. On July 1, 2003, I again wrote to advise you that Qwest was still unable to provide the necessary information so I was unable to deliver the second report in a timely manner. On January 7, 2004, I again wrote to advise you that Qwest was still unable to provide the necessary information and that we were continuing our efforts to fulfill the statutory obligation to submit the report that was due July 1, 2003. We have now calculated an estimate of the return Qwest received in 2002 based upon the information we have able to obtain from Qwest.

Price plan regulation under Iowa Code § 476.97 applies only to regulated retail services that would otherwise be subject to rate-of-return regulation. For this reason, the estimate of the return of a local exchange carrier operating under price regulation, as if that carrier were subject to rate-of-return regulation, is calculated solely on revenues, expenses and investments for retail services for which the prices are regulated under price regulation. The calculation does not include revenues, expenses and investments for unregulated services, deregulated services, or wholesale services regulated by the Federal Communications Commission (FCC) pursuant to federal law.

The Consumer Advocate estimates that for the year 2002 Qwest's regulated utility operations in Iowa, excluding the revenues, expenses and investment associated with classified directory advertising, produced a return on common equity of 15.055%. The consumer advocate believes Qwest would have been allowed an opportunity to earn a return on common equity no greater than 11.65% had it operated under rate-of-return regulation during the year 2002, and estimates that Qwest collected \$10,173,000 in excess revenues under price regulation in 2002. If the revenues, expenses and investment associated with classified directory advertising are considered, as they were in each rate proceeding before the utilities board pertaining to Qwest or its predecessor, Qwest received a return on common equity of 27.227% and collected \$46,529,000 in excess revenues in 2002.

These estimates are based on a conservative analysis of Qwest's annual report and additional information provided by Qwest. The earnings and revenues calculations were made in accordance with accepted regulatory principles and applicable legal precedent.

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The Office of Consumer Advocate will be pleased to respond to any questions about this report.

Sincerely,

A handwritten signature in black ink, appearing to read "John R. Perkins". The signature is fluid and cursive, with a large initial "J" and "P".

John R. Perkins
Consumer Advocate

cc: Mr. Max Phillips, Qwest Corporation
Ms. Judi K. Cooper, Executive Secretary, Iowa Utilities Board